The Consumers' Gas Company Ltd. Annual Report 1981

The Corporate Goals

To serve our customers with integrity, sensitivity and fairness, at reasonable cost, and in a manner that fosters customer satisfaction, loyalty and employee pride.

To provide a real return to the shareholders, comprising dividend yield and increases in share value, which is competitive with alternative investment opportunities.

To provide stable employment with just compensation in an environment which recognizes both the performance and the dignity of the individual and provides opportunity for achievement.

To conduct our affairs in the many communities of which we are a part in a manner responsive to the needs of the public in a sensitive social environment.

Metric Conversion

All quantitative operating results are reported in metric units. The following conversion table is provided for your convenience.

1 cubic metre (m^3) = .0353 Mcf
1 Mcf = 28.328 m^3

1 thousand cubic metres (10^3m^3) = .0353 MMcf
1 MMcf = 28.328 10^3m^3

1 million cubic metres (10^6m^3) = .0353 Bcf
1 Bcf = 28.328 10^6m^3

1 hectare (ha) = 2.471 acres
1 acre = .4047 ha

1 kilometre (km) = .6214 miles
1 mile = 1.609 km

1 kilowatt (kW) = 1.341 horsepower
1 horsepower (550 ft•lbf/s) = .746 kW

°Celsius (C) = (°F −32)•5/9
°F = (9/5•°C) + 32

Contents

Highlights

	1981	1980
Income before equity in earnings of Walker-Home Oil Ltd.	**$ 28,675,000**	$ 25,249,000
Total revenue	**$1,105,385,000**	$865,875,000
Funds flow from operations	**$ 60,887,000**	$ 54,324,000
Additions to property, plant and equipment	**$ 96,131,000**	$103,681,000
Volumes of gas sold (thousand cubic metres)	**8,409,478**	8,103,383
Number of active customers – year end	**678,279**	630,747
Degree day deficiency	**4,202**	4,040

A Gas Company construction crew installing a header service to supply one of the many new housing developments added as customers this year.

Corporate Profile

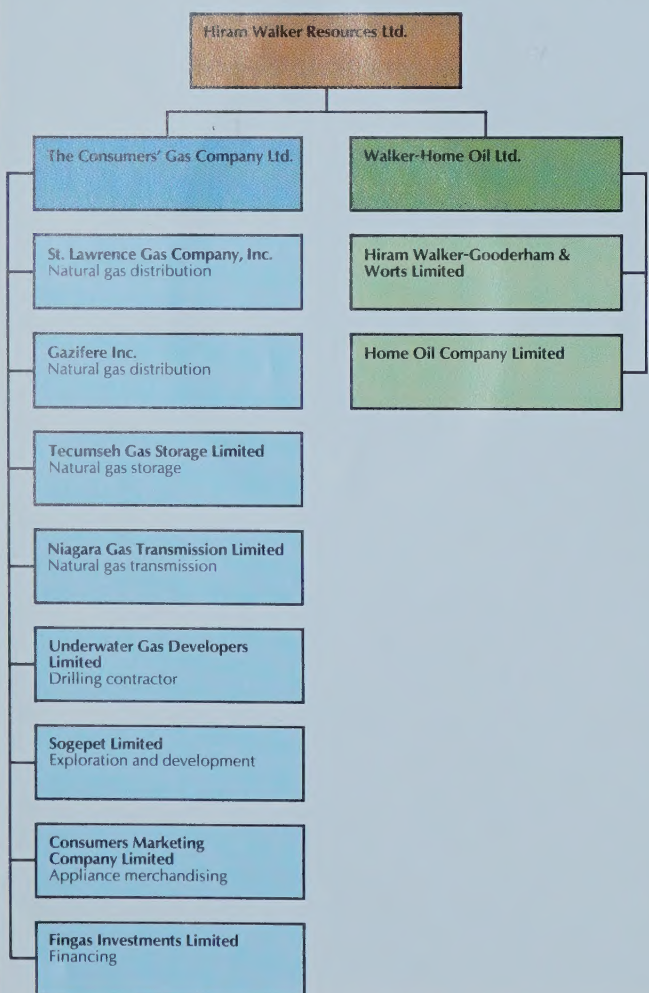
The Consumers' Gas Company Ltd. (referred to as the "Company" or "Consumers'" in this report), a wholly-owned subsidiary of Hiram Walker Resources Ltd., is one of Canada's largest natural gas distribution utilities, serving approximately 678,000 customers in central and eastern Ontario, western Quebec and northern New York State.

In addition to its gas distribution activities, the Company is engaged in the exploration for and production of oil and gas, primarily in southwestern Ontario; the operation of underground gas storage facilities; contract gas well drilling in Ontario and the northeastern United States; the rental and merchandising of appliances through a chain of retail stores; and international consulting.

The historical roots of the Company go back to 1848 when it was incorporated by a special act of the then Province of Canada. The Company was continued under The Corporations Act, 1953 (Ontario), and is now subject to the Business Corporations Act (Ontario).

In April 1980, the Company and its then wholly-owned subsidiary, Home Oil Company Limited ("Home"), combined their resources with Hiram Walker-Gooderham & Worts Limited ("Hiram Walker") and adopted the name Hiram Walker-Consumers Home Ltd. As part of a corporate reorganization, effective June 1, 1981, Hiram Walker Resources Ltd., a holding company, was formed to own Consumers', Hiram Walker and Home.

The Company, which currently employs 3,160 people, maintains its head office in Toronto, Ontario.



To the Shareholders

This 1981 annual report is significant in that it details the financial position of the Company solely as a natural gas distribution utility for the first time in many years. The report has been prepared in anticipation of selling additional common shares of the Company to the public, a decision that will return the Company to a position of preeminence among publicly traded utilities in Canada.

The proposed sale of common shares, for which a preliminary prospectus was filed with provincial securities commissions on November 30, 1981, follows a corporate reorganization completed during the year. The reorganization was carried out to more clearly segregate the utility's business for financial, management and regulatory purposes, and to enable it to finance its operations and expansion on a basis appropriate to a utility. Thus the Company became a subsidiary of Hiram Walker Resources Ltd. The capital structure, composed of approximately one-third common equity and one-half long term debt, with the balance in preference shares, short term debt and deferred taxes, provides an appropriate financial foundation on which the Company can build for the future.

Page 27 of this report sets forth a five year historical review of income which has been adjusted to reflect the investment in Walker-Home Oil Ltd. under the equity method of accounting. During those five years, total revenue has almost doubled, increasing from $651.5 million for the year ended September 30, 1977, to $1,105.4 million for the same period of 1981, largely as a result of the recovery of increases in the cost of gas. At least four factors have combined to create an expectation for a bright and profitable future.

First, the Company is positioned to serve the large and expanding market of central Canada, comprising approximately 20% of the total Canadian population.

Second, increasing public awareness of natural gas as a secure and abundant energy source continues to attract unprecedented numbers of new customers. Its cost, less than either oil or electricity, remains attractive under the pricing agreement of September 1, 1981, signed by the Federal Government and the Alberta Government. Under this agreement, the wholesale price of natural gas in Toronto will be approximately 65% of the average price of oil delivered to refineries in Toronto. The purpose is to encourage a shift from the use of oil, which is in short supply, to the use of more abundant fuels such as natural gas. The pricing agreement also provides for a development fund, the proceeds of which would be used to encourage natural gas distributors to serve areas where it had previously been uneconomic to do so. Customers of the Company will benefit from the Canada Oil Substitution Program, a part of The National Energy Program, that provides Federal government grants to homeowners and businesses covering half the costs, to a maximum of $800, incurred in converting heating systems from oil.

Third and possibly most important, the Company is entering an improved regulatory environment, characterized by greater understanding of the adverse impact of high interest rates and inflation on the utility's operations. Evidence of this improved environment is offered by the Ontario Energy Board (the "OEB") in its willingness to permit the Company to recover current costs, based on a forecasted test year, thereby reducing regulatory lag. On October 7, 1981, the OEB, which establishes the utility's rate base in the Province of Ontario and a fair rate of return on this rate base, granted an interim rate increase of $50.9 million. The Company has requested an increase in its return on common equity to 18% from the present level of 14.25%. In the interim decision, the OEB provided for a return on common equity of 15% on the basis that its final determination, expected in December, 1981, will not be less than this amount. This is the first time that the OEB has granted an increase in the rate of return in an interim decision.

Finally, Consumers' has significantly lowered its level of short term indebtedness, thus reducing exposure to widely fluctuating interest rates. On September 30, 1981, $75 million was raised through the issuance of 18½% debentures, and on November 30, 1981, an additional $65 million was raised through the issuance of 17¾% debentures. Together, these two debt issues have reduced short term debt to more reasonable levels and the Company is now in a better position to forecast its cost of debt and recover interest costs from its customers. The importance of reducing short term indebtedness is revealed by examining 1981 earnings. The Company estimates the year's earnings were reduced by about $5 million as a result of a higher level of short term debt and the unprecedented surge in borrowing costs.

As part of the reorganization, provision has been made for a Board of Directors which will have a degree of independence from the parent company and represent the communities served by the utility. Of the new, 14-member Board, five directors will sit on both boards of Consumers' and Hiram Walker Resources Ltd. ("HWR"), and seven former HWR directors have agreed to act as independent directors.

W.P. Wilder

R.W. Martin

Two directors, B. A. Plumptre and A. R. Poyntz, are retiring. Mrs. Plumptre, who served on the audit and pension committees, has been a member of Consumers' Board since 1976. Mr. Poyntz was first elected to Consumers' Board in 1953 and served on the executive and audit committees. The Company is indebted to these two directors for the valuable contributions they have made over the years. Two new directors will be added, W. B. Harris and A. G. Watson. Mr. Harris, Chairman of the Board of The Mercantile and General Reinsurance Company of Canada, Toronto, is also a director of six other companies. Mr. Watson has recently retired as Senior Partner in Peat, Marwick, Mitchell & Co., Chartered Accountants.

To its employees, the Company expresses appreciation and thanks for their enthusiastic efforts during the past year which made possible the achievements set out in this report.

On behalf of the Board.

W. P. Wilder
Chairman of the Board

R.W. Martin
President

December 18, 1981

Review of Operations

Gas Supply

The National Energy Board (the "NEB") recently released its 1980 report on Canadian Energy Supply/Demand to the year 2000. The NEB estimates that reserves of natural gas from conventional producing areas, principally Alberta, are sufficient to supply Canadian needs and currently authorized exports until at least the year 2000. These supplies do not take into consideration the continuing discoveries being made in the frontier areas of northern Canada and offshore areas of the east coast. These discoveries firmly enhance the long term outlook for natural gas supplies.

Based on the need to reduce imports of high cost foreign oil, the Federal Government introduced programs to encourage the substitution of abundantly available natural gas.

In the fall of 1980, The National Energy Program was announced and included reference to "off-oil" grants. This ten year grant program, known as the Canada Oil Substitution Program ("COSP"), provides a taxable grant of 50% of the cost of conversion from oil up to a maximum of $800.

The momentum generated by COSP is one of several factors which will continue to build the demand for natural gas service in the future.

The Company is well positioned to respond to the demands for increased use of natural gas in its franchise areas which contain over 20% of the country's population. To assure the supply of natural gas, the Company currently has under contract long term purchase commitments with its major supplier TransCanada PipeLines Limited ("TransCanada").

These contracts provide for annual deliveries of up to 8,749.9 10^6m^3, subject to the Company's right to reduce total contract volumes to 8,495.1 10^6m^3, in any contract year. Niagara Gas Transmission Limited ("Niagara"), wholly-owned by the Company, owns and operates a pipeline extending from TransCanada's gas transmission system to the international boundary near Cornwall, Ontario, and there supplies

The Company's underwater drilling operations in Lake Erie contribute to gas supply security.

gas to its affiliate, St. Lawrence Gas Company, Inc. ("St. Lawrence"), for sale in northern New York State. Niagara purchases all of its gas supply from TransCanada under contracts which provide for all of the requirements of St. Lawrence up to a maximum annual volume of 271.8 10^6m^3.

Underground storage plays an important and necessary role in ensuring that the Company's daily market requirements are met on an economic and secure basis.

Tecumseh Gas Storage Limited ("Tecumseh"), jointly owned by the Company and Imperial Oil Limited, continues to provide the major underground storage capacity for the Consumers' system. With working storage capacity of about 1,700 10^6m^3 from facilities in the Sarnia area, Tecumseh meets peak day requirements and stabilizes the daily supply from TransCanada. The Company's requirements in 1981 were for 1,585.7 10^6m^3 turnover volume and peak day capability of 25.5 10^6m^3. To meet 1982 contract demand of 1,614.1 10^6m^3 turnover and 26.9 10^6m^3 per day capability, Tecumseh is adding a 3,200 kW compressor unit in readiness for the 1981-82 withdrawal cycle.

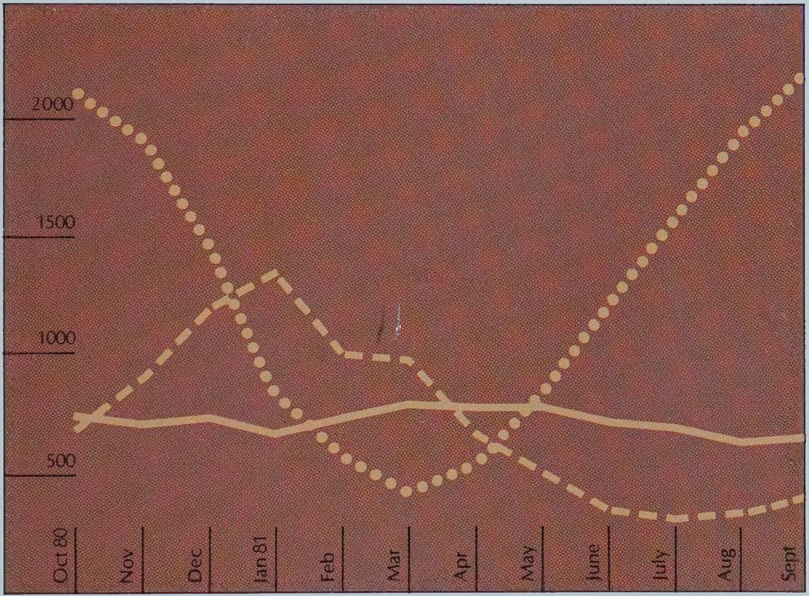
Another 212.5 10^6m^3 of storage space is available to the Company under a long term agreement with Union Gas Limited with additional storage space available to the Company from time to time on a short term basis. The Company also operates a small underground storage pool near Crowland in the Niagara Peninsula to meet local peak day requirements.

Additional gas supplies are obtained from the Company's own production wells in Ontario, principally under Lake Erie, as well as from other Ontario producers.

In 1981, the Company added 18 gas wells to its producing facilities in Ontario and the production level of a new Lake Erie gas treatment plant, which started up in 1980, was increased to its design capacity. The Company's natural gas production in Ontario rose by 63% over the previous year to approximately 203 10^6m^3, a record setting level, accounting for approximately 2.3% of the Company's total annual requirements. At year end, combined production from offshore and onshore wells was 708 10^3m^3 per day.

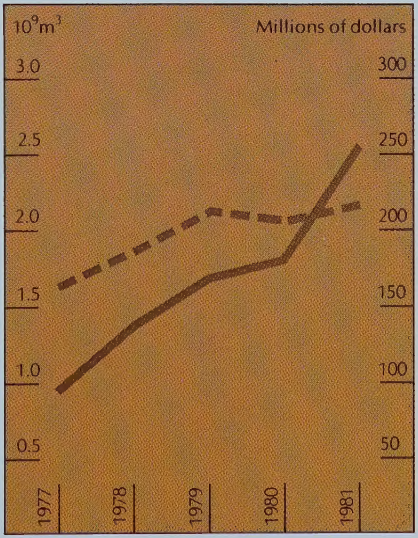
At October 1, 1981, the remaining proven recoverable reserves of natural gas underlying its acreage in Ontario was estimated to be 2,560 10^6m^3.

The National Energy Program, which was announced as part of the Federal Budget on October 28, 1980, included significant pricing "provisions" for natural gas in the future, as well as the introduction of the Federal natural gas and gas liquids tax. At the present time this tax amounts to \$20.98 per 10^3m^3 which, when



Consumers' Gas system gas volume statistics
Expressed in 10^6m^3

Month end storage balance ●●●●
Monthly sendout ▬ ▬ ▬
Monthly purchases and receipts ▬▬



Gas storage data

Inventory at September 30
Expressed in 10^9m^3 ▬ ▬ ▬

Value of gas in storage inventory at September 30 ▬▬
Expressed in millions of dollars

CIP Inc. (Canadian International Paper), a significant new industrial customer, was added in the eastern section of our distribution system this year. The abundance of natural gas available makes possible the serving of this customer and many other large volume additions.

added to the Toronto City Gate Reference Price, results in an effective cost of gas to the Company of approximately $112.76 per 10^3m^3 as at July 1, 1981.

The pricing "provisions" included in the October 28, 1980 announcement were shortlived. On September 1, 1981, agreement was reached between the governments of Canada and Alberta on a new set of pricing provisions for natural gas over the next five years. This five year agreement will further widen the price gap between gas and oil by indexing gas at the Toronto City Gate to approximately 65% of the blended Canadian crude oil price at the Toronto refinery.

Marketing

In a year that saw many achievements in the Company, one of the most notable was the addition of 50,965 residential customers and 5,484 industrial and commercial customers.

Although natural gas enjoys price advantages over other forms of energy, the market environment continues to present the Company with a number of challenges.

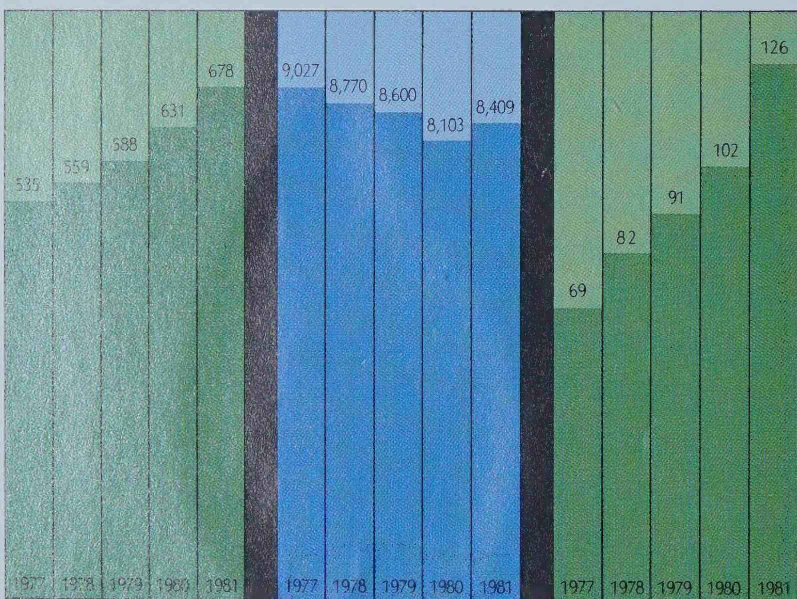
The recent energy agreement between the Federal and Alberta governments will keep the natural gas price advantage against fuel oil in the 30-35% range for the next five years. However, if electricity rates increase at the current projected levels, the Company can expect additional competition from electricity for heating customers.

Competitive forces have been present during the past year. The Ontario Government through its Board of Industrial Leadership and Development Program ("BILD"), supports the role of electricity in Ontario in a way that may promote future competition with natural gas. There has been promotional support for electric heat pumps in the residential sector and surpluses of heavy fuel oil in the industrial sector.

This competitive situation has resulted in the public being confronted with confusing and conflicting claims concerning energy and energy costs. The Company is working with other natural gas utilities through industry associations to ensure that the public is properly informed on these important energy issues.

Residential: The sales volume in this sector was 2,298 10^6m^3 which represents an increase of 10% over last year. The largest number of customer additions came from those households which converted from oil: 31,412 (29,650 last year) and the balance of 19,553 (17,400 last year) were the result of new residential construction.

Although new housing construction declined generally during this year, the Company continued to dominate this market with an 83% capture of new homes built in its franchise area.



Number of active customers (year end) Expressed in thousands

Volume sold Expressed in 10^6m^3

Average rate Dollars/10^3m^3

83% of the new houses built in our service area use gas for heating and water heating (19,553 in fiscal 1980-81). Also, an unprecedented number of households converted from oil to gas heating during the year to add 31,412 new residential heating customers to our total.

Among Consumers' wide range of services are appliance stores and showrooms where the public may select from a broad range of modern equipment.

Commercial: Customer additions in the commercial market exceeded last year with a total of 5,100 for both conversions and new construction. Sales to the apartment sector were higher because of the larger size of new apartment units but total volumes were offset by the overall conservation effort. Although an unusually low number of new apartment buildings were constructed in the franchise area, the Company captured over 95% of this market. Sales volumes in the commercial sector represent 37% of the sales total.

Industrial: New construction in the industrial sector also declined this year but the number of conversions from other fuels maintained last year's pace. The volumes sold this year, excluding sales for thermal generation, increased by 30.3 $10^6 m^3$ over last year. The surplus of heavy fuel oil on the market has resulted in some customers switching over to natural gas at a slower rate than previously anticipated. Although the Company does not expect to lose any existing large volume customers because of the availability of low cost surplus heavy fuel oil, the growth of natural gas sales in this market may be slowed temporarily.

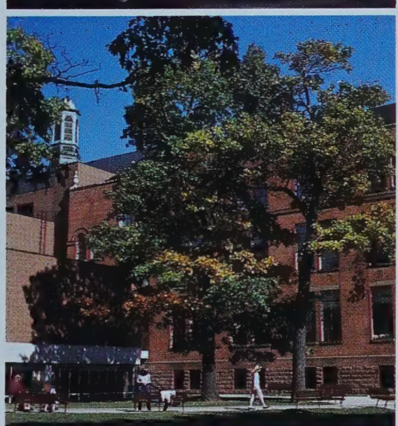
Merchandising: The Company operates 25 retail sales outlets throughout the system. In order to attract a broader cross section of the appliance market, it now promotes several nationally advertised lines of major electrical appliances as well as gas appliances. Revenues from the merchandising operation were approximately $13 million.

Operations

The record breaking customer addition activity required 583 km of new mains to be installed throughout the system by both Company construction crews and by independent contractors.

The capital expenditures to connect new customers to the system were $56.3 million. Additional costs of $7 million were incurred for upgrading, replacements and alterations of existing plant to ensure reliability and continuity of gas supply and to accommodate street and highway improvements.

The Company invested additional capital in exploration activity, gas rental equipment and other general plant. Overall capi-



Among the 5,484 new commercial and industrial customers recently added to our lines are both new and nostalgic buildings including hotels and apartments, office buildings, industrial plazas, schools and churches.

tal expenditures amounted to $96.1 million.

Operating and maintenance costs, as well as capital expenditure levels, were subject to strong inflationary pressures. This situation required a concerted effort to contain the effect of cost increases by innovative management approaches and tight budgetary controls. While the operating and maintenance costs related to customer service were $77.7 million, an increase of 12.8% over 1980, reflecting the large growth in customer additions, these costs on a per customer basis increased by only 7.6%, well below the annual inflation rate.

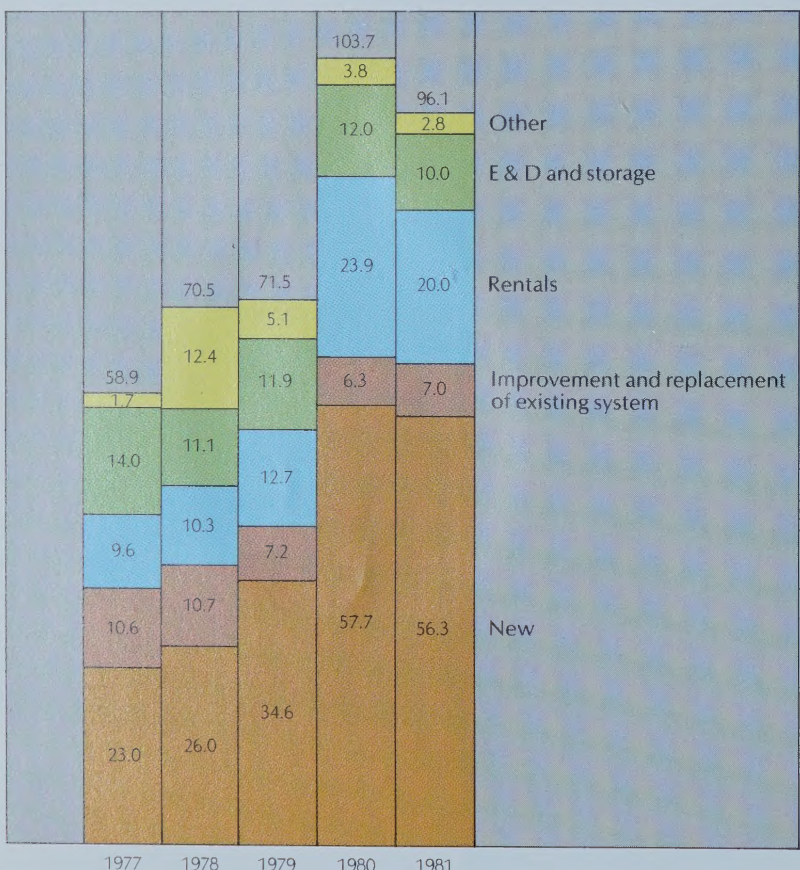
One of the major challenges for the operating personnel of the Company during this period of sustained growth is to maintain the high level of quality in all facets of Company operations, from design and engineering to customer service. To meet this challenge, new systems and programs are being implemented throughout the Company. These programs include the development of a computerized system for handling customer service requests and records (to be installed in 1982), quality control programs for service work and extensive use of computers for analysis, design and modelling of gas distribution systems, materials management, and general operations management and planning.

On Christmas Day 1980, the lowest ever recorded temperatures in Toronto resulted in unusually high residential gas consumption and provided a severe test of the distribution system and a challenge to Consumers' staff. Except for a few isolated instances, the system was able to supply all the demands; over 100 employees were contacted at home and quickly reported for duty on Christmas Day.

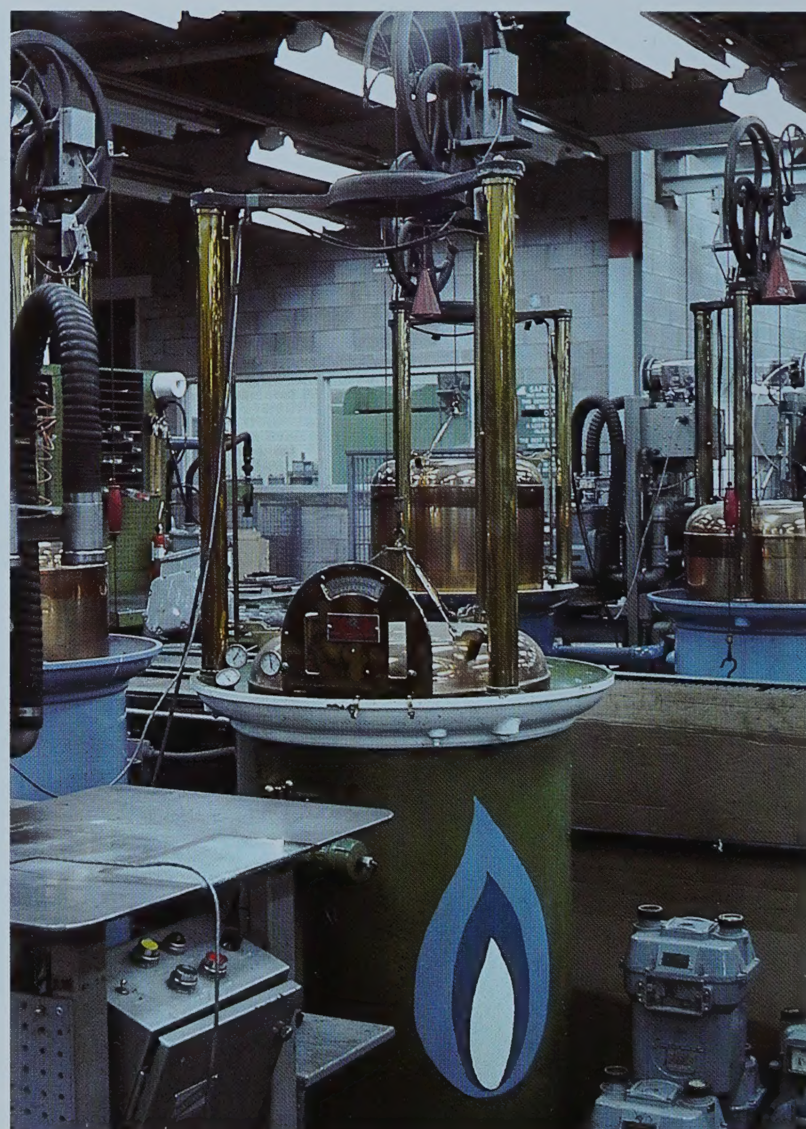
Regulation

The Company's costs of providing service, including the cost of capital, are subject to review and regulation in the provinces of Ontario and Quebec and in the State of New York. In addition, the manner in which these costs may be recovered from customers through rate design is also subject to regulation.

The Company continues its attempt to eliminate attrition in earnings that results from the time consumed by the regulatory process. The timing of rate relief, the dates upon which hearings to consider that relief are held, and the speed with which a decision is rendered, are all crucial to obtaining the opportunity to



Capital expenditures by major groupings
Expressed in millions of dollars



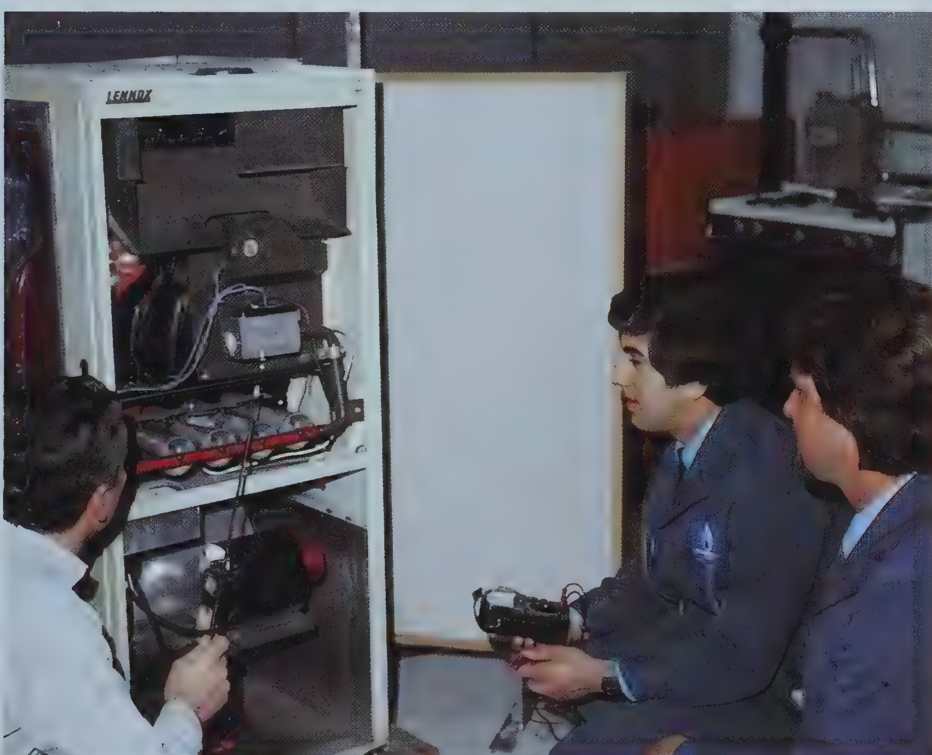
achieve a reasonable rate of return. To that end the Company advocated the use of a forecasted test year with rates designed to recover the allowed rate of return being in effect on October 1, the commencement of that forecasted test year. The Ontario Energy Board (the "OEB"), in recent years, has taken steps that have helped the Company to come some distance towards achieving this objective.

In 1979 and 1980, the Company's budget process was advanced some five months in an attempt to meet regulatory filing deadlines which would have allowed hearings to be completed in time to implement fully updated rates on October 1.

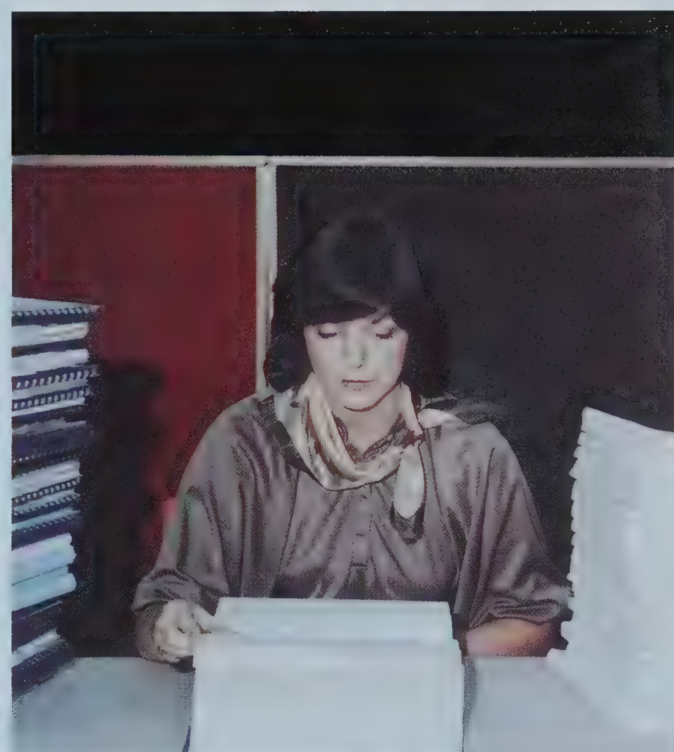
To date, this target has not been met. A filing on June 30, 1980, resulted in hearings completed by October 24, 1980 and the OEB issued a Decision, with reasons to follow, allowing the Company to increase its rates effective December 1, 1980, to recover an additional $17.3 million in revenues on an annual basis. This increase was designed to recover increased costs expected to be incurred in the 1981 fiscal year and to provide the Company with an opportunity to earn a reasonable rate of return on its investment. Had the increase been in effect on October 1, 1980, these objectives may have been met. The OEB determined in its Reasons for Decision dated January 30, 1981, that a fair and reasonable overall return on the Company's total utility investment was 10.81%. This overall return included a return on common shareholders' equity of 14.25%, an increase over the previously allowed 14%.

Advancing the budget process further, the Company filed evidence in May, 1981, to support an application for an increase in rates to recover costs expected to be incurred to provide service in the 1982 fiscal year. Hearings to consider this application were delayed considerably beyond the Company's requested commencement date. Once started in September, however, these hearings were quickly completed and the Company is awaiting the OEB's final decision. During those hearings, the Company requested an interim increase subject to refund or adjustment upon rendering of the final decision. The OEB approved an interim increase of $50.9 million, including an increase in the rate of return on common shareholders' equity to 15%, effective October 1, 1981.

The Company intends to file evidence in March, 1982, to support a revision to its rates effective October 1, 1982, to recover the costs of providing service in the 1983 fiscal year. The Company is confident that the earlier filing of evidence and improvements to the regulatory process being considered by the OEB will result in the opportunity to achieve the allowed rate of return.



Gas servicemen in training receive basic instruction utilizing a cut-away furnace in a Company training room, equipping them to handle the large variety of service calls received from customers.



The Company must appear before the Ontario Energy Board for approval of all rate changes. The documents shown constitute one copy of all the evidence filed by the Company at a recently completed hearing before the Board.

onsumers' gas meters are exchanged, ased on a statistical sampling program nd tested on modern electronic equipnent to strict national standards. Every neter is then verified by Government Inpectors from the Department of Conumer and Corporate Affairs.

In recent years, the Company's cost of acquiring natural gas has risen rapidly due to Federal government increases in the Toronto City Gate Price. Commencing in 1980, the Company was required to pay excise taxes as prescribed under The National Energy Program. In the 1981 fiscal year, three increases in excise taxes totalling \$20.98 per $10^3 m^3$ were imposed. The Company has received prompt approval to pass these increases on to its customers, after an appropriate adjustment in the effective date of the increase to give the customers the benefit of any lower cost gas in storage.

Research and Development

The Company is actively involved in research and development directly through its own staff and resources and also through its support of outside research organizations.

The Company continues to sponsor the research activities of the Canadian Gas Research Institute and is actively involved with a greatly expanded research program undertaken by the Gas Research Institute in the United States. Some of the Canadian programs have been supported financially by both the Federal and the Provincial governments.

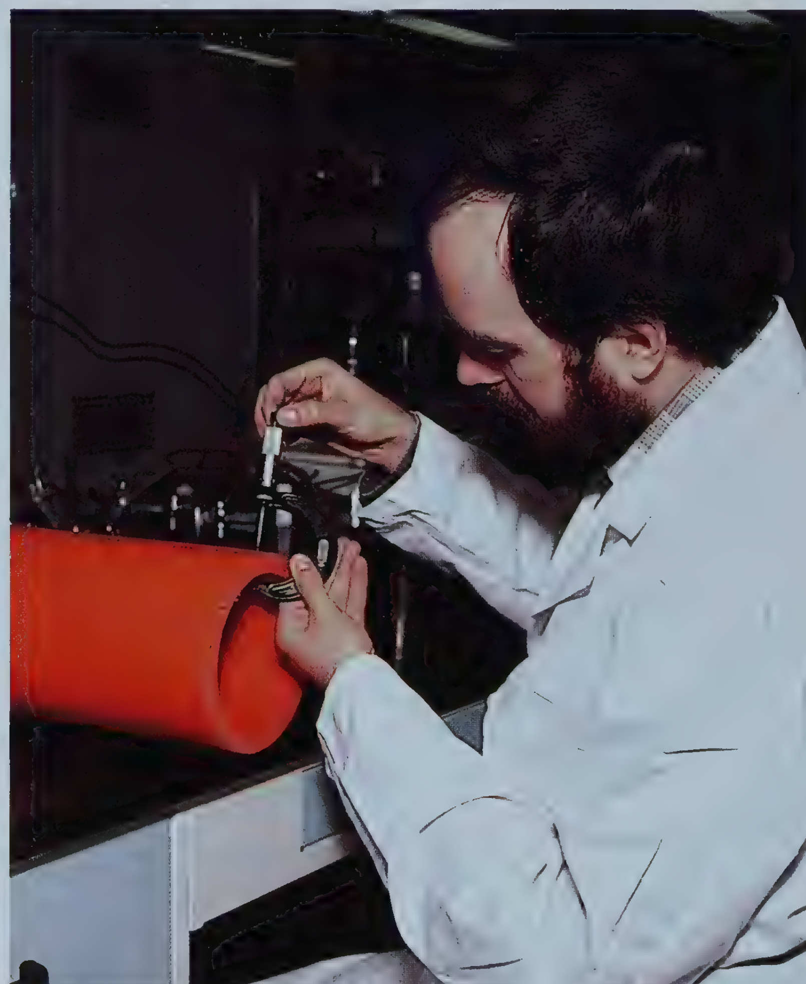
These research activities include a variety of programs designed to achieve energy conservation through the development and commercialization of high efficiency appliances. These appliances will further increase the attractiveness of natural gas and maintain its competitive advantage over other energy forms.

The Company is actively involved in researching and promoting the use of natural gas for transportation. It is expected that this activity will provide an opportunity for increasing natural gas sales while at the same time providing a substitute for imported oil products.

In order to demonstrate the new market potential for natural gas and at the same time reduce its own transportation operating costs, the first phase of this research project included the conversion of some of the Company's own vehicles to Compressed Natural Gas ("CNG").

Twenty-two service vans were converted to run on natural gas and a vehicle filling station was constructed on Company premises in Toronto. If the operating experience with these vehicles is favourable, the next step will be to extend the use of natural gas to more vehicles in its own fleet and the promotion of CNG for use by large commercial and industrial vehicle fleets.

Twenty-two Company service vans have been converted and are running on compressed natural gas (CNG).



Test samples of polyethylene natural gas pipe are regularly checked in our laboratory to ensure correct calibration specifications are met.

Conservation

In addition to conservation initiatives through research and development, the Company is directly involved in assisting customers to conserve and works with government and local community organizations in support of energy saving programs.

The Company has provided personnel and other resources to various conservation committees formed to advise local municipalities and school boards. It has provided technical speakers for seminars on conservation. For industrial and commercial customers, assistance is provided in carrying out audits of their premises with the object of identifying potential energy savings for both heating and processing operations. For residential customers, the Company offers a ceiling insulation service, the Alcan home retrofit program, and provides information on a number of energy saving ideas.

Evidence of residential customers' success in conserving energy is shown in the average household natural gas usage which has declined by 18% from the high of 5.1 10^3m^3 per year in 1973, the year of the first OPEC crisis.

Energy conservation is also practised within the Company. On-going comprehensive energy audits of all buildings have produced sizeable savings as well as serving to make employees aware of the prudence of using energy wisely.

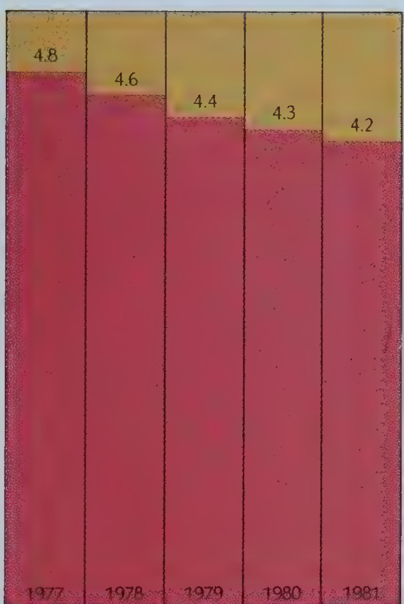
Recently, the Company, in cooperation with the Ministry of Energy and the Ministry of Transportation and Communications, introduced "Vanpooling" at its main office in Toronto. In this program, the Company supplies vans on a break even basis to groups of employees for the purpose of commuting to and from work. This program saves the participants hundreds of dollars per year, reduces traffic and parking problems and, of course, conserves energy.

Customer Relations

The unprecedented demand for natural gas as a substitute for other energy forms has resulted in a substantial increase in such customer service areas as bill inquiry, normal maintenance, appliance sales and service, and requests for mains and services.

Providing all customers, new and old, with the traditional high level of service during this busy year placed a heavy demand on facilities, equipment and human resources.

Customer relations is regarded as a responsibility of every single employee. Accordingly, significant emphasis is placed on train-



Average annual consumption, adjusted for normal weather conditions, of a residential customer with space heating and water heating
Expressed in 10^3m^3

Numerous pieces of literature have been produced by Consumers' to support and encourage the wise use of energy. These cover not only efficient gas usage but also offer assistance on insulation, storm doors and windows and other energy saving tips.

ing all employees to deal with customers from a position of knowledge and with a willingness to respond meaningfully to each customer's needs. In addition to receiving technical training, employees whose jobs bring them into contact with customers receive human relations skills training.

New customer relations programs provide information about specific aspects of the Company's business, such as reading the gas meter, and explaining the monthly invoice. Additional information is given to help alleviate the increasing cost of fuel through practical conservation.

Helpful advice including energy information kits for new customers, service and maintenance folders, and an ongoing series of newsletters with energy news, conservation tips and other data useful to householders is continuously provided to customers. Various communications are used to give customers a better understanding of the regulated nature of the utility business.

Consulting

As a result of the Company's reputation as a leading authority on utility operations, continued demands for consulting assistance have been received from other gas distribution organizations and governments around the world. Services offered range from the design of distribution systems to the management of daily utility operations. At the present time, clients represent distributors, transmission companies, consultants and governmental agencies in Denmark, Ireland and Sweden as these countries prepare for the initial distribution of natural gas. Work also continues on an engineering project in Algeria for the state-run Sonelgaz. In Canada, considerable assistance was provided to utilities in British Columbia, Ontario and the Maritimes.

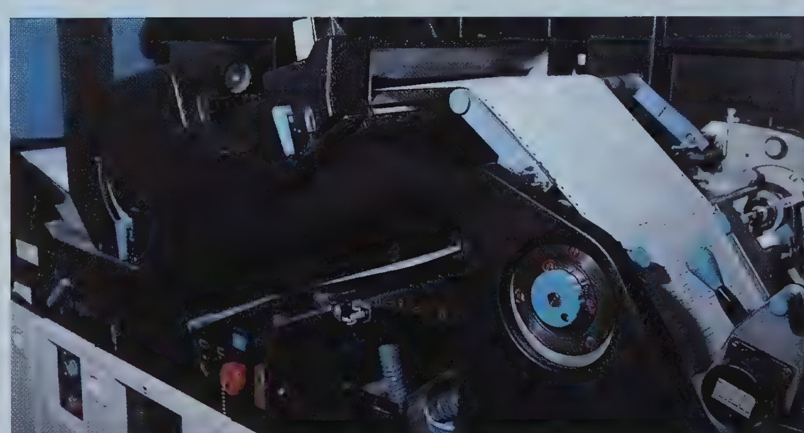
A number of computerized information and engineering programs are marketed by the consulting group. Of these, one in particular, the Company's own management, budget and planning model generation program, called GENMOD, is achieving notable success in attracting buyers from United States utilities.

The Company's network analysis program continues to be made available throughout the world on the McAuto time sharing network operated by McDonnell-Douglas Corporation.

As well as contributing to the

Our Customer Relations representatives attempt to give prompt and friendly assistance to our customers when they telephone for answers to specific questions.

An Amdahl V7B large-scale computer was installed during April 1981 to provide the necessary processing capacity required, among other uses, for the implementation of a new Customer Accounting System.



The 3800 Laser Printer offers Consumers' faster production of gas bills with improved image quality.

net income of the Company, consulting provides a source of job enrichment and broadened business experience for the employees involved.

Exploration and Development

The Company is continuing its oil and gas exploration and development program within the Province of Ontario. In 1981, operations continued to be directed primarily to Consumers' Lake Erie properties, from which most of the Company's gas production originates. As of September 30, 1981, exploratory and production landholdings totalled 485,913 gross ha (447,594 net ha), of which 80% lie in Lake Erie. During the year, the Company participated in the drilling of 48 wells, 35 of which were offshore, resulting in 12 completed Lake Erie gas wells and one onshore oil well in southwestern Ontario. The Company tied-in 15 additional gas wells this year to its 114 existing producing wells in Lake Erie which are linked together by 416 km of gathering lines.

Underwater Gas Developers Limited ("Underwater"), a wholly-owned subsidiary of the Company, provides drilling contracting services to the Company and others in eastern Canada and the northeastern United States. In 1981, Underwater mobilized two of its three offshore drilling vessels for the Company's Lake Erie drilling program and drilled 15 offshore wells for others. Underwater's United States onshore drilling operations have become increasingly active, requiring the acquisition of a new rig in May, 1981. With the recent addition of two rigs, Underwater now has seven land rigs operating in the northeastern United States.

On-going organizational and technical assistance is provided under consulting contracts to Alliance and Dublin Consumers Gas Company in the Republic of Ireland.

Consulting activity involving engineering and market feasibility support for Dansk Olie Natural Gas Co. of Denmark.

Human Resources

The Company's good relationships with its customers are due, to a large extent, to the enthusiasm, effort and skills of its workforce. The consistent effort of Consumers' 3,160 employees has enabled the Company to meet the challenge of adding over 56,000 new customers during the fiscal year while maintaining a high level of service for approximately 678,000 existing customers.

The Company continues to offer specialized training courses, educational assistance and other programs to provide employees with the opportunity for achievement. The management development program has been revised this year to provide all levels of management personnel with a standard core of knowledge and skills necessary to accomplish the Company's objectives in today's complex work environment.

The Company has seven collective agreements with unions representing roughly half of the utility employees. In Canada, these agreements are with locals of the National Union of Independent Gas Workers and in the United States, with the International Brotherhood of Electrical Workers.

Only one agreement was negotiated in this year. This was with a small group of employees in Toronto who work in the appliance sales division.

During the next fiscal year, five of the seven agreements will be renegotiated as they expire at various times throughout the year.

The Company appreciates the cooperation of the union executives, who for the most part are long term employees, for their years of contributions in representing the unionized employees.

The progressive introduction of the latest in word processing equipment, with its ability to retain information on magnetic media, enables faster, more accurate and higher quality production of correspondence.

Financial Folio

Management's Responsibility for Financial Statements

The accompanying consolidated financial statements of the Company were prepared by management in accordance with accounting principles generally accepted in Canada consistently applied. The significant accounting policies followed are described in note 1 of the Notes to Consolidated Financial Statements. The financial information contained elsewhere in this Annual Report is consistent with that in the financial statements.

Management is responsible for the integrity and objectivity of the financial statements. In the preparation of these statements estimates are sometimes necessary when transactions affecting the current accounting period cannot be finalized with certainty until future periods. Management believes such estimates are based on careful judgements and have been properly reflected in the accompanying consolidated financial statements. Management has established systems of internal control which are designed to provide reasonable assurance that assets are safeguarded from loss or unauthorized use and to produce reliable accounting records for the preparation of financial information.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control. The Board exercises its responsibilities through the Audit Committee of the Board, which is composed of directors who are not employees of the Company. The Committee meets periodically with management, the internal auditors and the external auditors to satisfy itself that responsibilities are properly discharged and to review the financial statements.

The external auditors conduct an independent examination in accordance with generally accepted auditing standards, and express their opinion on the financial statements. Their examination includes a review and evaluation of the Company's system of internal control and appropriate tests and procedures to provide reasonable assurance that the financial statements are presented fairly. The external auditors have full and free access to the Audit Committee of the Board.

Management recognizes its responsibility for conducting the Company's affairs in compliance with established financial standards and applicable laws and the maintenance of proper standards of conduct in its activities.

R.W. Martin
President

J.L. Aiken
Senior Vice President,
Accounting and Regulation

Financial Review

Under an Arrangement which became effective June 1, 1981, Hiram Walker Resources Ltd. became the parent of the Company.

The 1980 financial statements reflect both the investment and equity in earnings of Walker-Home Oil Ltd. together with the gas distribution utility operations. The 1981 financial statements include the equity in earnings of Walker-Home Oil Ltd. to June 1, 1981 and incorporate adjustments arising from the transfer of that investment to Hiram Walker Resources Ltd. under the Arrangement.

Note 3 to the financial statements sets out the basis of statement presentation, while note 2 describes the reorganization which occurred as a result of the Arrangement. Note 8 covers the significant alterations to the Company's capital stock.

Prior to the Arrangement, the assets and liabilities of the companies were combined, including such items as cash, loans and notes payable and shareholders' equity. This, together with the lack of segregation of certain income statement items particularly interest expense, income taxes and operating and maintenance costs, makes it difficult to compare the 1981 operating results from the gas distribution utility with those of 1980.

Balance sheet values at September 30, 1981 however, represent only the gas distribution assets, liabilities and shareholders' equity.

Gross margin (gas sales less gas costs) in 1981 increased to $205.8 million compared to $173.1 million last year. This was the result of a revenue deficiency recovery of approximately $15 million arising from the Ontario Energy Board Decision, effective December 1, 1980, colder weather than the previous year (although still warmer than normal) and an increase of 47,500 in the average number of customer bills rendered each month.

Other income increased $10.6 million as a result of increases in the number of rental appliances, higher third party drilling activities (mainly in New York State), an increase in the level of late payment penalties, an increase in profits on the redemption of long term debt and a greater emphasis on consulting project development.

Operating and maintenance expenses escalated due to inflation and the increased activity associated with customer additions.

Other interest and finance costs were substantially higher due to the unexpected high interest rates on short term borrowings throughout the year and because the long term debt and equity financings did not take place until close to year end.

The Statement of Changes in Financial Position is affected by the Arrangement and the dual nature of the Company's operations during the year which severely limits the analysis and comparability of this statement. An increase in funds flow from operations of $6.6 million over 1980 along with an increase of $177 million in working capital took place. Working capital was improved by the issue of $75 million of debentures and $189 million in common shares on September 30, 1981. As part of the Arrangement, these common shares were purchased by Hiram Walker Resources Ltd. to provide a level of common equity appropriate to that of a gas utility.

The increase in demand for natural gas coupled with higher prices and carrying costs has put a strain on the Company's financing ability. Not only must the Company support higher inventories of gas in underground storage ($74.4 million over the previous year) and receivables ($17.2 million over the previous year) but it must also finance expansion at significantly greater cost levels. The ability to finance is tied directly to the ability to recover increases in operating costs and costs of capital in rates. This emphasizes the importance the Company has placed on receiving timely and adequate rate relief from the Ontario Energy Board.

On November 30, 1981, the Company issued $65 million in Sinking Fund Debentures bearing interest at 17¾% and maturing in 1996 and plans have been made for an issue of common shares to the public during 1982 subject to appropriate capital market conditions.

Inflation and Conventional Financial Reporting

The high rate of inflation that emerged in the mid-'70s continues to plague the economy heading into the '80s. Inflation has eroded the purchasing power of the dollar and accordingly has had a significant effect on the reported financial results of most business enterprises. Conventional financial reporting, which reports earnings and financial position in historical costs, provides the basic parameter of measuring financial results; however, it does not fully reflect the effects of inflation and changing prices. Matching current revenues with the original cost of assets under conventional financial reporting, i.e. cost of goods sold and depreciation at historical costs, also tends to distort and overstate earnings at a time of high inflation.

The Company has long been a keen and concerned follower of the controversy surrounding development of formal inflation accounting and reporting standards. Though in favour of inflation accounting disclosures in principle, the Company has serious reservations on the appropriateness of recommended disclosures to the rate of return regulated industries. Accordingly the Company headed up a joint response with the other major Ontario gas distribution utilities to the Canadian Institute of Chartered Accountants ("CICA") in which the companies specifically recommended that the rate of return regulated natural gas industry in Ontario ("Regulated Industry") be exempted from the proposed current cost disclosure requirements. In essence, the response cited three specific reasons in support of its recommendation. They are:

1. Current cost accounting is not recognized as an alternative to historical cost accounting in the existing regulatory process in Ontario.

2. The proposed definition of current cost implicitly excludes the Regulated Industry since it is synonymous to the Regulated Industry's definition of historical cost.

3. The CICA's proposed current cost adjustments are inappropriate and potentially misleading to the Regulated Industry as the required adjustments for holding gains on inventories and fixed assets, financing adjustment and net monetary items adjustment are generally inapplicable to the Regulated Industry.

At the present, the CICA still has not concluded its evaluation on all comments submitted on the exposure draft. It is expected that a further publication will be issued due to the response received. The Company is hopeful that its response and alternate disclosure proposals will receive proper consideration by the CICA.

The Company is of the opinion that the most meaningful inflation disclosure for the Regulated Industry is the presentation at current replacement cost of the underlying value of fixed assets, the most significant component of rate base. This disclosure would illustrate to all financial statement users the future funding requirements for the Company in the event of renewal or replacement of the most significant area for expenditures in the Regulated Industry.

Under this proposal, the Company's underlying value of fixed assets at September 30, 1981, would be as follows:

Property, Plant and Equipment (in $000's) (unaudited)	Current Replacement Cost		Historical Cost	
As at September 30, 1981	Asset	Accumulated Depreciation & Depletion	Asset	Accumulated Depreciation & Depletion
Gas mains	$ 993,560	$ 167,679	$ 389,841	$ 65,792
Gas services	540,063	87,331	277,740	44,912
Regulating and metering equipment	168,132	34,870	75,426	15,643
Rental equipment	274,614	87,935	149,329	47,817
Natural resource properties and related equipment	177,257	44,121	93,186	23,195
Other	130,455	29,340	58,536	13,165
	$2,284,081	$ 451,276	$1,044,058	$ 210,524

Consolidated Balance Sheet (note 3)

Assets

Expressed in thousands	September 30 1981	1980
Current assets		
Cash and short term investments	**$ 65,077**	$ 3,705
Accounts receivable	**81,565**	64,373
Receivable from Walker-Home Oil Ltd.	**166**	24,456
Income taxes recoverable (note 4)	**4,533**	2,244
Materials and supplies	**16,722**	14,231
Gas stored underground	**254,897**	180,518
Prepaid expenses	**12,296**	5,918
	435,256	295,445
Investments		
Walker-Home Oil Ltd. (note 2)	**–**	1,446,892
Tecumseh Gas Storage Limited and other companies	**9,766**	9,772
	9,766	1,456,664
Property, plant and equipment (note 5)	**1,044,058**	955,362
Accumulated depreciation and depletion	**210,524**	185,543
	833,534	769,819
Other assets and deferred charges	**22,154**	25,598
	$1,300,710	$2,547,526

Liabilities and Shareholders' Equity

	1981	1980
Current liabilities		
Loans and notes payable	**$ 189,230**	$ 224,411
Accounts payable	**115,047**	108,557
Excise and other taxes	**16,812**	–
Dividends payable	**6,804**	29,742
Current portion of long term debt	**6,811**	9,229
	334,704	371,939
Long term debt (note 6)	**513,385**	462,459
Deferred income taxes	**24,752**	27,305
Preference shares of subsidiary company (note 7)	**80,800**	84,400
Commitments, contingencies and subsequent events (note 11)		
Shareholders' equity		
Capital stock (note 8)		
Preference shares	**12,292**	374,092
Common shares	**189,080**	151,132
Retained earnings	**145,697**	1,079,975
	347,069	1,605,199
Deduct common shares held by Trustees at cost	**–**	3,776
	347,069	1,601,423
	$1,300,710	$2,547,526

Approved by the Board:
W. P. Wilder, Director
N. Torno, Director

Consolidated Statements of Income and Retained Earnings (note 3)

Income

Expressed in thousands	Years ended September 30 1981	1980
Revenue		
Gas sales	**$1,056,832**	$ 827,947
Other	**48,553**	37,928
	1,105,385	865,875
Costs and expenses		
Gas costs	**851,025**	654,845
Operation and maintenance	**90,047**	74,638
Depreciation and depletion	**32,416**	27,264
Municipal and other taxes	**12,986**	11,601
Interest on long term debt	**42,397**	43,839
Other interest and finance costs	**50,046**	28,523
	1,078,917	840,710
Income before income taxes and equity in earnings of Walker-Home Oil Ltd.	**26,468**	25,165
Income taxes (recovery) (note 4)		
Current	**(963)**	(219)
Deferred	**(1,244)**	135
	(2,207)	(84)
Income before equity in earnings of Walker-Home Oil Ltd.	**28,675**	25,249
Equity in earnings of Walker-Home Oil Ltd.	**151,595**	214,273
Net income (note 9)	**$ 180,270**	$ 239,522

Retained Earnings

	1981	1980
Balance at beginning of year	**$1,079,975**	$ 957,536
Net income	**180,270**	239,522
Other	**130**	110
	1,260,375	1,197,168
Deduct		
Capital adjustment (note 2)	**1,018,670**	–
Dividends		
Preference shares	**21,111**	21,597
Common shares	**74,897**	90,256
Share issue expenses, net of income taxes	–	5,340
	1,114,678	117,193
Balance at end of year	**$ 145,697**	$1,079,975

Consolidated Statement of Changes in Financial Position (note 3)

Expressed in thousands	Years ended September 30 1981	1980
Funds were obtained from		
Operations		
Income before equity in earnings of Walker-Home Oil Ltd.	**$ 28,675**	$ 25,249
Charges (credits) not affecting working capital		
Depreciation and depletion	**32,416**	27,264
Deferred income taxes	**(1,244)**	135
Amortization of deferred charges and other items	**1,040**	1,676
	60,887	54,324
Dividends received from Walker-Home Oil Ltd.	**69,269**	152,949
Issue of long term debt	**75,000**	–
Issue of preference and common shares	**192,985**	347,018
Other items, net	**1,018**	(9,813)
Transfer of investment in Walker-Home Oil Ltd. (note 2)	**1,531,438**	–
	1,930,597	544,478
Funds were used for		
Additions to property, plant and equipment	**96,131**	103,681
Reduction in non-current portion of long term debt	**24,074**	17,978
Dividends on preference and common shares	**96,008**	111,853
Redemption of subsidiary company preference shares	**3,600**	3,600
Reduction in shareholders' equity (note 2)	**1,535,294**	–
Transfer of shares previously held by Trustees (note 2)	**(3,776)**	–
Investment in Walker-Home Oil Ltd.	**2,220**	404,867
	1,753,551	641,979
Increase (decrease) in working capital	**$ 177,046**	$ (97,501)

Changes in components of working capital	1981	1980
Increase (decrease) in current assets		
Cash and short term investments	**$ 61,372**	$ (2,018)
Accounts receivable	**17,192**	6,719
Receivable from Walker-Home Oil Ltd.	**(24,290)**	24,456
Income taxes recoverable	**2,289**	2,244
Material and supplies	**2,491**	4,525
Gas stored underground	**74,379**	11,460
Prepaid expenses	**6,378**	2,824
	139,811	50,210
Increase (decrease) in current liabilities		
Loans and notes payable	**(35,181)**	121,332
Accounts payable	**6,490**	10,100
Excise and other taxes	**16,812**	(5,783)
Dividends payable	**(22,938)**	22,289
Current portion of long term debt	**(2,418)**	(227)
	(37,235)	147,711
Increase (decrease) in working capital	**$ 177,046**	$ (97,501)

Notes to Consolidated Financial Statements

(Tabular amounts expressed in thousands except shares)

1. Summary of Significant Accounting Policies

The Company and its subsidiaries are primarily engaged in the distribution of natural gas to residential, commercial, industrial and other customers in areas of central and eastern Ontario, in and around Hull, Quebec and part of northern New York State, all of which are classified as one business segment for financial reporting purposes. The companies are subject to the jurisdiction of certain regulatory bodies on a number of matters such as rates to be charged for the sale of gas, construction, operations and accounting practices.

Materials and Supplies. Materials and supplies consisting primarily of merchandise for resale and pipe and general stock for construction and maintenance are valued at the lower of cost and replacement cost. Amounts are removed from inventory at estimated average cost per unit.

Gas Stored Underground. Inventory of gas held in underground storage is valued at the lower of net realizable value and cost determined on the first-in-first-out basis.

Property, Plant and Equipment. Property, plant and equipment is stated at cost except for gas utility plant and equipment acquired prior to 1956 which, at September 30, 1981, is carried at a 1955 appraised value of $40,000,000 ($41,000,000 at September 30, 1980). The appraisal increment is included in retained earnings.

Property, plant and equipment includes all costs related to construction. The cost of funds used for the purpose of construction and included in property, plant and equipment was $315,000 in 1981 and $253,000 in 1980. Overhead costs capitalized were $6,172,000 in 1981 and $6,233,000 in 1980.

Normal retirements of assets are recorded by deducting from the asset account the cost of the asset and charging this amount, net of any proceeds, to accumulated depreciation or depletion. Upon retirement or sale of major items of property, the asset accounts are relieved of the cost of such property together with accumulated depreciation or depletion. The difference between the depreciated value of such major items and the proceeds, if any, is included in income.

Maintenance and repair expenditures are charged to maintenance expense accounts. Costs of improvements which increase the service capacity or prolong the service life of the asset are capitalized.

Depreciable property, plant and equipment is depreciated on a straight line basis at rates varying from 1.5% to 6.1% for utility plant and 3% to 25% for other equipment. The application of such rates is equivalent to a composite rate of approximately 3%.

The Company follows the full cost method of accounting for oil and gas exploration and development operations whereby all costs of exploring for and developing oil and gas reserves are capitalized and charged against earnings using the unit of production method based upon estimated proven recoverable reserves. Capitalized costs include land acquisition costs, geological and geophysical expense, carrying charges of non-producing property, costs of drilling both productive and non-productive wells and overhead expense related to exploration activities.

Financing Costs. The costs incurred on issuing long term debt are deferred and charged against income over the life of each issue while the costs of issuing shares are charged to retained earnings in the year incurred. Gains realized on purchases for redemption are applied against the unamortized debt costs related to each issue. When the deferred costs related to each issue are eliminated gains are included in income.

Revenue Recognition. The Company follows an accepted practice in the gas utility industry whereby it records monthly gas sales on the basis of meter readings or estimates made throughout the month. As a result, although each fiscal year includes twelve months gas sales and costs, there is at the end of each fiscal year gas delivered, the cost of which was charged to expense, while the related revenue will not be recorded until the following year when billed.

Pension Plans. The Company and certain subsidiaries have contributory retirement plans to cover substantially all employees. Normal retirement benefits under these plans commence at age 65. Based on actuarial advice an unfunded past service obligation of approximately $7,800,000 at January 1, 1979 is being funded over 15 years and charged to operations in annual amounts of $874,000 to 1989 and thereafter,

$364,000 to 1993. Amounts estimated in the actuarial calculations to be sufficient to fund all current costs of the plans are charged to operations in the year incurred.

Income Taxes. Deferred income taxes are provided for all significant timing differences in reporting income and expenses for financial statement and tax purposes except in regulated gas utility operations when rate and revenue structures are designed and approved not to recover deferred taxes in current revenues. Such deferred taxes not recovered in revenues and therefore not recorded in the accounts amounted to $149,000,000 at September 30, 1981 and $136,000,000 at September 30, 1980.

2. Reorganization

Pursuant to an Arrangement, which became effective June 1, 1981, Hiram Walker Resources Ltd., previously a subsidiary of Hiram Walker-Consumers Home Ltd. (renamed The Consumers' Gas Company Ltd.) became the parent of the Company.

Holders of all of the Company's common and convertible preference shares, and options thereon, automatically exchanged their securities for similar shares and options of Hiram Walker Resources Ltd.

None of the Company's Group 1 Preference Shares, which are non-voting and non-convertible, and none of the Company's debt securities were exchanged for securities of Hiram Walker Resources Ltd.

Hiram Walker Resources Ltd. subsequently elected to convert all of the Company's then outstanding 9% Convertible Preference Shares (643,243 shares) and all of the Company's then outstanding 7½% Convertible Preference Shares (13,929,455 shares) into 13,294,670 common shares of the Company.

As part of the Arrangement the Company transferred its investment in Walker-Home Oil Ltd. (the corporation which owns all the shares of Hiram Walker-Gooderham & Worts Limited and Home Oil Company Limited) to Hiram Walker Resources Ltd. and received a note for $2,247,386,000. The note was used by the Company to acquire from Hiram Walker Resources Ltd. 77,496,078 (approximately 94%) of the Company's common shares. These shares were then cancelled.

The Company's investment in Walker-Home Oil Ltd. comprised:

Book value at September 30, 1980	$1,446,892
Additional shares acquired on exercise of stock options of Home Oil Company Limited	2,220
Equity in earnings to June 1, 1981	151,595
	1,600,707
Less cash dividends received	69,269
	$1,531,438

The capital adjustment to retained earnings is computed as follows:

Investment in Walker-Home Oil Ltd.	$1,531,438
Retained earnings attributable to the book value of Consumers Marketing Company Limited	80
Transfer of book value of shares held by Trustees	3,776
Reduction in shareholders' equity	1,535,294
Deduct common shares cancelled	516,624
Capital adjustment	$1,018,670

3. Basis of Financial Statement Presentation

The financial statements consolidate the accounts of all subsidiary companies. The equity method of accounting is used for investments in Tecumseh Gas Storage Limited and other companies 50% owned.

In previously reported financial statements, the Company's consolidated financial statements included its investment in Walker-Home Oil Ltd. as follows:

a. the accounts of Hiram Walker-Gooderham & Worts Limited consolidated under the pooling of interests method of accounting;

b. the investment in Home Oil Company Limited on the equity method of accounting to December 31, 1979; and

c. the accounts of Home Oil Company Limited consolidated from January 1, 1980 under the purchase method of accounting.

During 1981 for the period up to the effective date of the Arrangement (as detailed in note 2) the Company's investment in Walker-Home Oil Ltd. was accounted for in the financial statements on the equity method of accounting and its equity in earnings from that investment has been shown separately in the consolidated statement of income.

The comparative statements have been restated to conform with the current presentation. Such restatement has no effect on consolidated net income or shareholders' equity.

4. Income Taxes Recoverable

Future income taxes recoverable have been recorded on losses incurred primarily as a result of carrying charges during 1981 on the Company's investment in Walker-Home Oil Ltd. Effective June 1, 1981 the Company's investment in Walker-Home Oil Ltd. along with the related debt was transferred to Hiram Walker Resources Ltd. (as detailed in note 2).

In the opinion of management there is virtual certainty that the tax losses incurred in 1981 will be utilized in the year ended September 30, 1982.

5. Property, Plant and Equipment

	September 30			
	1981		1980	
	Asset	Accumulated Depreciation and Depletion	Asset	Accumulated Depreciation and Depletion
Gas mains	**$ 389,841**	**$ 65,792**	$369,102	$ 60,445
Gas services	**277,740**	**44,912**	244,732	38,182
Regulating and metering equipment	**75,426**	**15,643**	70,088	15,808
Rental equipment	**149,329**	**47,817**	132,175	42,406
Natural resource properties and related equipment	**93,186**	**23,195**	83,007	16,958
Other	**58,536**	**13,165**	56,258	11,744
	$1,044,058	**$210,524**	$955,362	$185,543

6. Long Term Debt

	Maturity	September 30 1981	1980
The Consumers' Gas Company Ltd.			
First Mortgage Sinking Fund Bonds (1)			
5½% Series C	1983	**$ 10,020**	$ 10,589
4.85% Series D (U.S. $8,345,000)	1985	**8,958**	11,053
8⅝% Series E	1993	**53,200**	54,868
8% Series F (U.S. $13,697,000)	1993	**13,522**	16,383
8¾% Series G	1994	**17,965**	18,493
9⅛% Series H	1995	**27,535**	28,485
11⅜% Series I	1994	**13,849**	14,170
11½% Series J	1996	**19,400**	19,800
10⅞% Series K	1996	**43,819**	46,008
Debentures			
7%	1981	**–**	5,600
6½%	1982	**3,996**	3,996
6½%	1983	**2,591**	5,148
6¾%	1984	**4,861**	5,367
6⅝%	1985	**10,053**	11,386
8⅝%	1991	**38,970**	40,454
8½%	1992	**26,231**	27,338
9.60%	1997	**68,031**	70,000
10.45%	1999	**80,000**	80,000
18½% 1981 Series	1986	**75,000**	–
St. Lawrence Gas Company, Inc.			
First Mortgage Sinking Fund Bonds			
5¼% (U.S. $1,920,000)	1988	**2,088**	2,331
Other		**107**	219
		520,196	471,688
Less amounts due within one year		**6,811**	9.229
		$513,385	$462,459

(1) The First Mortgage Sinking Fund Bonds rank pari passu and are secured by a first fixed and specific

mortgage, pledge and charge on specified assets and a first floating charge on certain other assets.

The estimated amount of long term debt maturities and sinking fund requirements for the five years subsequent to September 30, 1981 are as follows:

1982 $6,811,000; 1983 $20,326,000; 1984 $17,411,000; 1985 $30,167,000; 1986 $14,794,000.

7. Preference Shares of Subsidiary Company

Dividends are payable on $44,000,000 of First Preference Shares at an annual rate of one-half of the published prime lending rate plus 1¼% and on $36,800,000 of Second Preference Shares at an annual rate of one-half of the published prime lending rate plus 1%. Annual redemption requirements are $2,000,000 in 1982, $6,000,000 to 1985 and $8,000,000 to 1988 for the First Preference Shares and $1,600,000 in 1982, $4,800,000 to 1985 and $6,400,000 to 1988 for the Second Preference Shares. Under certain circumstances the Company may be required to purchase these shares.

8. Capital Stock

a. As a result of the Articles of Amendment dated September 29, 1981, the Company's authorized share capital at September 30, 1981 is as follows:

	Par value	Authorized	Outstanding
Preference shares (issuable in series)			
Group 1	$100	122,920	122,920
Group 2	25	10,000,000	–
Group 3	25	10,000,000	–
Group 4	25	10,000,000	–
Group 5	25	10,000,000	–
Common shares (no par value)		75,000,000	26,705,977

b. Prior to the Articles of Amendment, the Company's authorized share capital at September 29, 1981 was as follows:

	Par value	Authorized	Outstanding
Preference shares (issuable in series)			
Group 1	$100	122,920	122,920
Group 2	25	5,889,600	–
Group 3	20	7,000,000	–
Group 4	25	20,000,000	–
Group 5	25	6,044,670	–
Group 6	0.02	1,959,521,770	–
Common shares (no par value)		36,518,079	4,902,574

c. Changes in Capital Stock

	Preference Shares		Common Shares	
	Shares	Amount	Shares	Amount
Balance October 1, 1979		$ 31,227	68,787,657	$147,311
Issued on investment in Walker-Home Oil Ltd.	13,739,667	343,492	(154,802)	(234)
Conversion of preference to common	(195,612)	(3,945)	257,808	3,945
Issued on exercise of stock options, for cash	143,907	3,597	9,160	110
Redeemed for cash	(2,786)	(279)	–	–
Balance September 30, 1980		374,092	68,899,823	151,132
Conversion of preference to common	(109,245)	(2,280)	137,195	2,280
Issued on exercise of stock options, for cash	71,756	1,793	64,495	2,111
Conversion of preference to common on reorganization (note 2)	(14,572,698)	(361,101)	13,294,670	361,101
Cancellation of common shares on reorganization (note 2)			(77,496,078)	(516,624)
Issued to parent company on acquisition of Consumers Marketing Company Limited			2,469	80
Subdivision of common shares (2.5 for 1)			7,353,861	–
Issued to parent company for cash			14,449,542	189,000
Redeemed for cash	(2,117)	(212)	–	–
Balance September 30, 1981		$ 12,292	26,705,977	$189,080

9. Earnings Per Share	The capital stock of the Company has been significantly altered in 1981 as a result of the reorganization (note 2) and the Articles of Amendment (note 8). Earnings per share have not been provided since the amounts are not comparable.
10. Remuneration of Directors and Senior Officers	Remuneration of directors and senior officers amounted to $1,811,000 in 1981.
11. Commitments, Contingencies and Subsequent Events	a. The Company has undertaken to make sufficient use of the facilities of Tecumseh Gas Storage Limited to generate the revenue required by Tecumseh to meet its obligations under trust indentures relating to its debentures. In the event that there is any deficiency, the Company will be required to purchase subordinated securities in an amount to make up the deficiency. The management of the Company is of the opinion that Tecumseh will generate sufficient revenues to meet its obligations. b. Pursuant to an agreement dated November 5, 1981 the Company has appointed Dominion Securities Ames Limited and Burns Fry Limited its exclusive agents for the sale of $65,000,000 principal amount of its 17¾% Sinking Fund Debentures to be dated November 30, 1981.

Auditors' Report

To the Shareholders of The Consumers' Gas Company Ltd.

We have examined the consolidated balance sheet of The Consumers' Gas Company Ltd. as at September 30, 1981 and the consolidated statements of income, retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at September 30, 1981 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Toronto, Canada
November 16, 1981

Thorne Riddell
Chartered Accountants

Financial Statistics

Condensed Consolidated Balance Sheet ($000's)	1981	1980	September 30 1979	1978	1977
Assets					
Current assets	**$ 435,256**	$ 295,445	$ 245,235	$ 219,754	$ 181,832
Investments	**9,766**	1,456,664	988,490	827,874	711,729
Property, plant and equipment	**1,044,058**	955,362	857,141	792,018	746,922
Accumulated depreciation and depletion	**210,524**	185,543	163,113	143,518	127,453
	833,534	769,819	694,028	648,500	619,469
Other assets and deferred charges	**22,154**	25,598	23,048	23,166	30,969
	$1,300,710	$2,547,526	$1,950,801	$1,719,294	$1,543,999
Liabilities					
Current liabilities	**$ 334,704**	$ 371,939	$ 224,228	$ 198,508	$ 159,069
Long term debt	**513,385**	462,459	480,437	423,672	432,998
Deferred income taxes	**24,752**	27,305	27,931	24,361	28,253
Preference shares of subsidiary company	**80,800**	84,400	88,000	50,000	–
Shareholders' equity					
Preference shares	**12,292**	374,092	31,227	36,863	37,422
Common shareholders' equity	**334,777**	1,227,331	1,098,978	985,890	886,257
	347,069	1,601,423	1,130,205	1,022,753	923,679
	$1,300,710	$2,547,526	$1,950,801	$1,719,294	$1,543,999

Condensed Consolidated Statement of Income ($000's)	1981	Years ended September 30 1980	1979	1978	1977
Revenue					
Gas sales	**$1,056,832**	$ 827,947	$786,498	$715,242	$626,676
Other	**48,553**	37,928	34,803	29,245	24,774
	1,105,385	865,875	821,301	744,487	651,450
Costs and expenses					
Gas costs	**851,025**	654,845	622,439	558,506	479,646
Operation and maintenance	**90,047**	74,638	62,062	58,859	52,362
Depreciation and depletion	**32,416**	27,264	24,333	22,481	19,908
Municipal and other taxes	**12,986**	11,601	9,717	8,488	7,821
Interest on long term debt	**42,397**	43,839	40,772	39,507	35,620
Other interest and finance costs	**50,046**	28,523	12,758	5,234	3,733
	1,078,917	840,710	772,081	693,075	599,090
Income before income taxes, equity in earnings of Walker-Home Oil Ltd. and extraordinary items	**26,468**	25,165	49,220	51,412	52,360
Income taxes (recovery)					
Current	**(963)**	(219)	12,010	11,617	11,593
Deferred	**(1,244)**	135	3,413	2,020	4,258
	(2,207)	(84)	15,423	13,637	15,851
Income before equity in earnings of Walker-Home Oil Ltd. and extraordinary items	**28,675**	25,249	33,797	37,775	36,509
Equity in earnings of Walker-Home Oil Ltd.	**151,595**	214,273	143,367	113,482	85,684
Income before extraordinary items	**180,270**	239,522	177,164	151,257	122,193
Extraordinary items	**–**	–	–	3,121	(7,783)
Net income	**$ 180,270**	$ 239,522	$177,164	$154,378	$114,410

Condensed Consolidated Statement of Changes in Financial Position ($000's)	1981	Years ended September 30 1980	1979	1978	1977
Funds were obtained from					
Operations					
Income before equity in earnings of Walker-Home Oil Ltd. and extraordinary items	**$ 28,675**	$ 25,249	$ 33,797	$ 37,775	$ 36,509
Charges (credits) not affecting working capital					
Depreciation and depletion	**32,416**	27,264	24,333	22,481	19,908
Deferred income taxes	**(1,244)**	135	3,413	2,020	4,258
Amortization of deferred charges and other items	**1,040**	1,676	1,240	639	1,755
	60,887	54,324	62,783	62,915	62,430
Dividends received from Walker-Home Oil Ltd.	**69,269**	152,949	32,699	28,403	25,848
Issue of long term debt	**75,000**	–	80,000	–	70,000
Issue of preference and common shares	**192,985**	347,018	40,172	50,205	2,772
Other items, net	**1,018**	(9,813)	(550)	23,716	19,449
Transfer of investment in Walker-Home Oil Ltd.	**1,531,438**	–	–	–	–
	1,930,597	544,478	215,104	165,239	180,499
Funds were used for					
Additions to property, plant and equipment	**96,131**	103,681	71,506	70,509	58,880
Reduction in non-current portion of long term debt	**24,074**	17,978	23,235	9,326	48,660
Dividends on preference and common shares	**96,008**	111,853	62,815	54,789	50,978
Redemption of subsidiary company preference shares	**3,600**	3,600	2,000	–	–
Reduction in shareholders' equity	**1,535,294**	–	–	–	–
[illegible] of shares previously held by Trustees	**(3,776)**	–	–	–	–
Investment in Walker-Home Oil Ltd.	**2,220**	404,867	54,370	32,132	8,508
	1,753,551	641,979	213,926	166,756	167,026
Increase (decrease) in working capital	**$ 177,046**	$ (97,501)	$ 1,178	$ (1,517)	$ 13,473

Operating Statistics

	Years ended September 30				
	1981	1980	1979	1978	1977
Gas supply and sendout – 10^3m^3					
Natural gas purchased	**8,424,733**	7,984,774	8,840,518	8,972,594	9,107,004
Natural gas produced	**202,599**	124,195	103,005	101,640	56,968
Total gas supply	**8,627,332**	8,108,969	8,943,523	9,074,234	9,163,972
Gas into storage	**(1,955,771)**	(1,950,673)	(2,014,297)	(1,812,428)	(1,856,114)
Gas out of storage	**1,844,592**	2,063,296	1,756,462	1,567,320	1,749,884
Total gas sendout	**8,516,153**	8,221,592	8,685,688	8,829,126	9,057,742
Gas sales to customers – 10^3m^3					
Residential	**2,298,005**	2,089,352	2,082,652	2,101,210	2,075,457
Commercial	**3,093,564**	2,879,909	2,865,532	2,873,347	2,872,657
Industrial and other	**3,017,909**	3,134,122	3,652,084	3,795,101	4,078,988
Total sales	**8,409,478**	8,103,383	8,600,268	8,769,658	9,027,102
Used by Consumers'	**11,948**	10,189	10,449	10,699	10,856
Unbilled and unaccounted for	**94,727**	108,020	74,971	48,769	19,784
	8,516,153	8,221,592	8,685,688	8,829,126	9,057,742
Maximum daily sendout – 10^3m^3	**52,575**	49,135	50,458	49,738	47,393
Minimum daily sendout – 10^3m^3	**7,054**	6,838	7,266	7,156	6,887
Average daily sendout – 10^3m^3	**23,332**	22,463	23,796	24,189	24,816
Degree day deficiency (see note)	**4,202**	4,040	4,246	4,434	4,355
Number of active customers (year end)					
Residential	**611,823**	568,984	530,636	504,725	483,143
Commercial	**60,041**	55,590	51,555	48,139	45,951
Industrial and other	**6,415**	6,173	5,987	5,734	5,734
Total	**678,279**	630,747	588,178	558,598	534,828
Cost to customers					
Average revenue per 10^3m^3					
Residential	**$149.09**	$124.97	$112.56	$101.21	$86.91
Commercial	**$119.81**	$ 98.41	$ 90.83	$ 81.02	$69.80
Industrial and other	**$113.84**	$ 90.43	$ 79.90	$ 71.09	$60.26
Average use per residential customer – m^3	**3,770**	3,694	3,904	4,119	4,258
Number of employees – year end	**3,160**	3,125	2,866	2,775	2,696
Kilometres of mains in use – year end	**16,468**	15,885	15,124	14,845	14,537
Population of area served	**4,860,000**	4,685,000	4,598,000	4,528,000	4,443,000

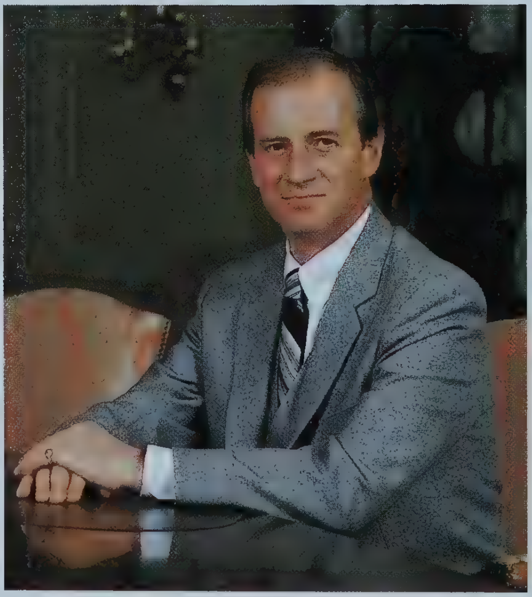
Note: Degree day deficiency figures given, expressed in Celsius, are those for the Toronto area. The deficiency is a measure of coldness during the heating season and is calculated by adding together the total number of degrees by which the daily mean temperature fell below 18°C on those days when it did so.

Senior Executive Group

R.W. Martin

J.L. Aiken

R.S. Lougheed



A.R. MacKenzie

C.F. Safrance

Directors and Officers

Directors

W. P. Wilder[1]
Chairman of the Board, The Consumers' Gas Company Ltd.
President and Chief Executive Officer, Hiram Walker Resources Ltd.

N. Torno, M.B.E.[1][3]
Vice Chairman of the Board, The Consumers' Gas Company Ltd.

R. W. Martin[1]
President, The Consumers' Gas Company Ltd.
Executive Vice President, Hiram Walker Resources Ltd.

Dr. G. C. A. Cook[3]
Economic Consultant

J. K. Grant[3]
President and Chief Executive Officer, The Quaker Oats Company of Canada Limited

G. C. Gray, F.C.A.[2]
Chairman of the Board and Chief Executive Officer, A. E. LePage Limited

A. G. S. Griffin[2]
Corporate Director

W. B. Harris*
Chairman of the Board, The Mercantile and General Reinsurance Company of Canada

R. S. Hurlburt[1]
Chairman of the Board and President, General Foods Inc.

G. E. Jackson[3]
Senior Vice-President, Reed Stenhouse Limited

O. E. B. Low, Q.C.[2]
Private Investor

F. H. Newman[2]
Chairman of the Board, Newman Bros. Limited

R.C. Scrivener*
Corporate Director

A. G. Watson*
Corporate Director

1. Executive Committee
2. Audit Committee
3. Management Resources Committee

* Effective February 3, 1982

Officers

W. P. Wilder
Chairman of the Board

R. W. Martin*
President

J. L. Aiken*
Senior Vice President, Accounting and Regulation

R. S. Lougheed*
Senior Vice President, Gas Supply and Development

A. R. Mackenzie*
Senior Vice President, Administration

C. F. Safrance*
Senior Vice President, Operations

J. I. Cuthill
Vice President, Exploration and Storage

S. M. Ferris
Vice President, Human Resources

T. E. Gieruszczak
Vice President, Administrative Services

G. J. Hills
Vice President, Budgets and Rates

N. B. Loberg
Vice President, Marketing

G. N. Milburn
Vice President, Regions

E. W. H. Tremain
Vice President and Secretary

G. T. Waugh
Vice President and Comptroller

W. R. Fatt
Treasurer

R. J. Reid
Assistant Secretary

*Member of the Senior Executive Group

Corporate Information

Common Share Information	1981
Shares authorized	75,000,000
Shares issued at September 30	26,705,977

The Consumers' Gas Company Ltd.
Incorporated in 1848 by Special Act, 11 Victoria Cap. XIV, of the then Province of Canada. By letters patent dated September 30, 1954 Consumers' was continued under The Corporation Act, 1953 (Ontario) as if it had been incorporated under that Act and is now subject to The Business Corporations Act (Ontario).

Head Office
Suite 4200, 1 First Canadian Place, P.O. Box 90, Toronto, Ontario
M5X 1C5

Auditors
Thorne Riddell

Registrar and Transfer Agents
Common Shares
The Consumers' Gas Company Ltd.
Suite 4200, 1 First Canadian Place, P.O. Box 90, Toronto, Ontario
M5X 1C5

Preference Shares, Group 1
Canada Permanent Trust Company
20 Eglinton Avenue West, Toronto M4R 2E2 and in Halifax, Montreal, Calgary and Vancouver

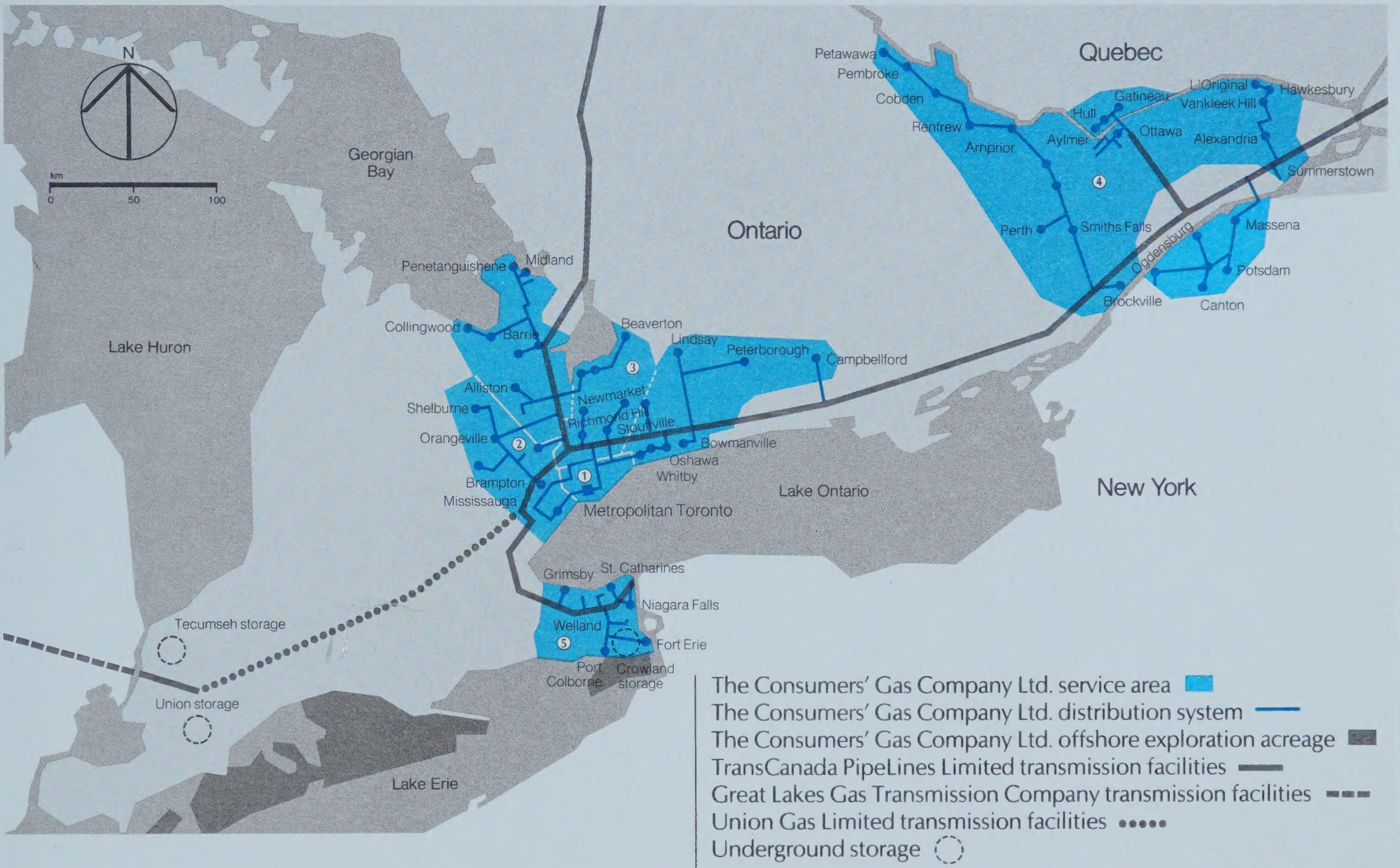
Trustee and Registrars
Bonds
5½%, 4.85%, 8⅝%, 8%, 8¾%, 9⅛%, 11⅜%, 11½% and 10⅞% First Mortgage Sinking Fund Bonds
Canada Permanent Trust Company
20 Eglinton Avenue West, Toronto M4R 2E2

Debentures
6½%, 6¾%, 6⅝% and 8½% Sinking Fund Debentures
Crown Trust Company
302 Bay Street, Toronto M5H 2P4

Debentures
8⅝%, 9.60% and 10.45% Sinking Fund Debentures; 18½% Debentures, 1981 Series
National Trust Company, Limited
21 King Street East, Toronto M5C 1B3

6½% Convertible Sinking Fund Debentures
The Royal Trust Company
Royal Trust Tower, Toronto-Dominion Centre, Toronto M5W 1P9

Consumers' Gas and Subsidiaries Service Area



As of September 30	Active customers 1981	Active customers 1977	Sales volume 10^3m^3 1981	Sales volume 10^3m^3 1977
1. Metro Toronto Region				
Metro Toronto	306,513	256,714	4,000,006	3,811,857
R. L. Hearn Generating Station	1	1	10,947	1,300,073
Total Metro Toronto Region	306,514	256,715	4,010,953	5,111,930
2. Western Region	97,014	68,194	1,075,266	884,089
3. Central Region				
Georgian Bay District	19,078	15,361	216,810	191,180
North Central District	41,898	23,692	358,058	261,712
East Central District	39,948	30,455	443,161	368,593
Total Central Region	100,924	69,508	1,018,029	821,485
4. Eastern Region				
Ottawa Gas	54,011	29,785	751,678	662.847
Gazifere	8,246	7,529	92,462	61,819
St. Lawrence Gas	10,020	9,297	185,343	159,225
Total Eastern Region	72,277	46,611	1,029,483	883,891
5. Provincial Gas	101,550	93,800	1,275,747	1,325,707
Total	678,279	534,828	8,409,478	9,027,102

THE
Consumers' Gas
COMPANY LTD.
SUITE 4200
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P.O. BOX 90
TORONTO • ONTARIO M5X 1C5